

LOW-INCOME SHELTER PROGRAM

(SU-0017)

EXECUTIVE SUMMARY

Borrower and borrower:	Government of Suriname		
Executing agency:	Ministry of Social Affairs and Housing		
Amount and source:	IDB: (OC)	US\$9.8 million	
	Local:	<u>US\$2.5 million</u>	
	Total:	US\$12.3 million	
Financial terms and conditions:	Amortization period:	25 years	
	Grace period:	5 years	
	Disbursement period:	5 years	
	Interest rate:	Variable (IFF)	
	Supervision and inspection:	1%	
	Credit fee:	0.75%	
	Currency:	US dollars from the Single Facility Currency	
Objectives:	The main objectives of the program are: (a) to improve the housing conditions of low-and moderate-income households, (b) harness Suriname's most capable private finance institutions, NGOs, and CBOs to assist under-served households in lower, and middle income neighborhoods improve or construct a house, and (c) make shelter policies and subsidies more efficient, equitable, and transparent.		
Description:	The approach of the program contrasts strongly with the traditional one used by the Government. Traditionally, Government contracts large construction companies to build relatively large units (80 m ²) on large lots (400 m ² to 500 m ²) sold at highly subsidized prices sometimes financed by deep interest-rate subsidies. Although this turnkey method resulted in very high costs and subsidies, Government succeeded in building 20% of the current housing stock and distributing much land. Hence, many low and		

moderate-income Surinamese have either a lot or a small house. However, declining real incomes have stopped households from building on these lots and repairing the houses they have.

Under the program, GOS has agreed to direct demand subsidies targeted to low/moderate-income households largely for housing rehabilitation and expansion, but also for in-fill new construction of expandable core housing on smaller lots (300 m²). Households make the decisions and, in general, will hire small contractors to perform the construction. As a result, the average subsidy per household under the program is a fraction of the traditional approach.

Three key bottlenecks have contributed to hampering housing production for low/moderate-income households: (a) high mortgage finance interest rates; (b) problems with Government land divestiture, regulation, and transfer taxes; and (c) high cost of building and development. The program joins investment, policy reform, and institutional development to tackle these problems. The program has three components: (a) investment in rehabilitation and in-fill new construction of housing through granting direct subsidies to low/moderate-income households; (b) technical assistance and performance-based fees to non-government organizations (NGOs), community-based organizations (CBOs), and financial institutions (FIs) for key roles in implementing the investment component; and (c) support to strengthen public housing policies and institutions.

1. **Investment (US\$8.4 million).** The investment component will provide an up-front subsidy to 4,000 low and moderate-income households to help them construct a core expandable unit or to rehabilitate or expand their present home. The amount of the subsidy will average US\$2,100 per household. This amount is less than one-fourth the per-unit subsidy of Government's traditional turnkey housing programs (over US\$10,000 per unit). Low-income households will join this subsidy only with a minimum equity contribution of 25% of the development cost to finance rehabilitation/expansion work. Moderate-income households will join the subsidy and their equity contribution with a market-rate mortgage loan to finance more costly in-fill new construction of a core unit. NGOs, CBOs, and FIs shoulder the major role in implementation of the investment component – rather than Government under traditional turnkey development methods. CBOs work directly with households to help them understand

and apply for the program. NGOs orient CBOs and review the applications that they receive from these CBOs. FIs receive and process the application packages, which serve as requests for both the subsidy and a loan. FIs will use a computer model provided by the Project Implementation Unit (PIU) to determine the level of subsidy and eligibility. The PIU disburses subsidies to the FIs on approval of applications and sets rules for participating households, CBOs, NGOs, FIs, and construction contractors.

2. **Technical assistance and performance-based fees to the private housing sector (US\$760,000).** Private housing finance and non-governmental institutions conduct the application, underwriting, and lending process for the housing investment component. Technical assistance is necessary and will be provided to support the private sector's key role. These measures include support to: (a) Government and the private sector for establishment of a credit bureau; (b) Government for reduction of taxes and fees for mortgage registration and land transfers; (c) Government and industry for consolidation of life and hazard insurance requirements for mortgages; (d) the Central Bank for reduction of reserve requirements for mortgages, and (e) credit unions for start-up funds for computer hardware necessary for program operation. In addition, NGOs will receive up-front assistance for capital expenditures to carry out their administrative and outreach functions, while CBOs will be reimbursed for initial costs in mobilizing the community and data collection. After this start-up period, participating FIs, NGOs, and CBOs will receive performance-based fees for conducting their functions in the program.
3. **Strengthening public housing policies and institutions (US\$1.74 million).** Regulatory and policy reforms focus on reducing the cost of construction and serviced land, coordinating the Government's land divestiture program with the housing program, and facilitating housing finance. Technical assistance will complete work begun in project preparation to analyze the high cost of key local building materials, and develop cost-saving designs, codes, and subdivisions regulations to lower them. Consultancies will help improve the targeting and operation of the Government's land divestiture efforts and coordinate them with the housing program.

Bank's country and sector strategy:

The 1999 Country Paper emphasizes policy and institutional reforms, favors the private sector, and specifies low-income housing as a key sector for reform. The program fully supports these goals through: (a) rationalizing and reforming the GOS housing program and subsidy approach; (b) shifting the role of Government from “rowing to steering” in the housing sector through using private-sector organizations to implement the program guided by a small PIU; and (c) greatly reducing the per-unit and total subsidy directed to housing, while achieving greater production.

Environmental/social review:

The program will have substantial positive environmental impact through providing adequate shelter to 4,000 households. The great bulk of development will occur on sites that already have basic urban services in existing urban areas. Thus, it improves the economics of infrastructure distribution and better uses land by avoiding leap-frog development of new subdivisions in peripheral areas. In social terms, the program's beneficiary selection system focuses on low-income neighborhoods, and involvement of CBOs and NGOs ensures that 65% of beneficiary families earn below the household poverty line of US\$188 per month.

Benefits:

The program holds great benefits for reform of the housing sector and for household beneficiaries. Most fundamental, it introduces a sustainable system for shelter production adapted to Suriname's fiscal and socioeconomic conditions. Relative to the Government's traditional turnkey methods, the program reduces the per-unit subsidy from over US\$10,000 to an average of US\$2,100, and the rate of expenditure on housing from US\$10 million per year to US\$2.5 million per annum. Households and the private sector (FIs, NGOs, and CBOs) make the decisions on housing and operate the program, rather than Government. The program uses a critical existing resource – ownership of lots and dilapidated housing by many low/moderate-income families – to achieve these goals, rather than more expensive methods. The program will benefit 4,000 individual households – far more than existing traditional methods could reach – and focus these benefits on low-income households.

Risks:

The main risk is the virtual absence of housing institutions. For this reason, the program relies largely on the private sector for execution. Additional risks involve problems with NGO capacity, autonomy of beneficiary selection, involvement of lenders, and macro-economic stability. The program will mitigate these potential pitfalls through: (a) technical assistance and performance-based fees for NGOs and CBOs; (b) a beneficiary

selection point system and use of NGOs and CBOs to pre-qualify low-income households; (c) loan fees commensurate with the work lenders must undertake to serve low-income households; and (d) the flexibility to focus program investment on rehabilitation without requiring a mortgage in case interest rates remain very high.

Special contractual clauses:

Conditions precedent to first disbursement:

- a. Evidence that the Project Implementation Unit (PIU) has been established, staffed as planned, and its Board of Directors appointed (see paragraph 3.10)
- b. Formalization of agreements between NGO/CBO partners and FIs (see paragraph 3.12)
- c. Establishment of the two bank accounts for the loan resources and counterpart, and the procedures for their use (see paragraph 3.26)
- d. Presentation of final text of program's operating regulations (see paragraph 3.22)

Conditions during execution:

Benchmarks of the midterm evaluation will be reviewed prior to further execution of the investment component (see paragraph 3.35)

Poverty-targeting and social sector classification:

The operation classifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-704). Furthermore, this operation qualifies as a Poverty Targeted Investment (see paragraph 3.36) by the headcount criterion. More than 50% of the beneficiaries are expected to be poor families. The borrower has requested the additional 10% in Bank financing allowed for PTI-qualified operations.

Exceptions to Bank policy:

None

Procurement:

No threshold or construction contracts apply because the program involves no direct financing of construction work. International competitive bidding will be used for procurement of goods and related services over US\$250,000 and consultancy services over US\$200,000.

